

May 14, 2002

To: Supervisor Zev Yaroslavsky, Chairman  
Supervisor Gloria Molina  
Supervisor Yvonne Brathwaite Burke  
Supervisor Don Knabe  
Supervisor Michael D. Antonovich



From: David E. Janssen  
Chief Administrative Officer

**DEFERRED COMPENSATION AND THRIFT (HORIZONS), SAVINGS AND DEFERRED EARNINGS PLANS - VESTING ISSUE**

This is to notify you of an error in the calculation of vested benefits for participants in the Deferred Compensation and Thrift (Horizons), Savings, and Deferred Earnings Plans (Plans).

During a quality control review of its record keeping system, Great-West Life & Annuity Insurance Company (third party administrator for the County deferred compensation plans) recently found and reported to the Plan Administrative Committees (PACs) that errors in their programming caused discrepancies in the calculation of vested County matching contributions. These calculation errors have occurred over a four and one-half year period.

Employee account totals are accurate, but in many cases a higher portion of the County match is reported as vested than should be the case. One consequence is that these over-vested amounts have been transferred from the Plans to employee investment control. This anomaly affects approximately 17,000 accounts. Great-West also reported a smaller under-vesting problem involving 5,600 accounts.

A factor contributing to the programming error is that vesting is uncommon in public sector deferred compensation plans and County vesting requirements are complex. In fact, among public plans, the Los Angeles County Plans are extraordinarily complex requiring extensive custom programming to operate.

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KPMG, the Plans' outside auditing firm, is required by contract to review vesting annually as part of its annual audit of the Plans finances. KPMG has been requested to review its auditing procedures and provide a report as to why they did not detect these errors.

Great-West is known for industry leading record keeping excellence among its thousands of clients. Great-West has expressed its serious regret for the mistake and has promised to correct errors at its own expense and to make the Plans whole for over-vested distributions that cannot be recovered. Great-West has also indicated that they have corrected the programming errors that caused the vesting problem and adopted proactive measures to prevent future recurrences.

When the PACs have completed their review of this matter and fully determined the actions needed to resolve it, I will report the results and actions taken to you.

Please contact me with any questions or concerns you may have on this matter, or your staff may contact Frank Frazier of my office at (213) 974-2491.

DEJ:WL  
FF:MR:lg

c: Executive Officer, Board of Supervisors  
County Counsel  
Each PAC member